

## Message Text

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ACTION EB-06

INFO OCT-01 ARA-06 ISO-00 SP-02 AID-05 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-01

SIL-01 IGA-01 /059 W

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R 181444Z NOV 74

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 8852

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E. O. 11652: N/A

TAGS: EAID, EAGR, AR

SUBJECT: IDB SUMMARY LOAN REQUESTS - AGRICULTURAL CREDIT AND  
AGRICULTURAL MECHANIZATION

REF: A. AIDTO A20, B. BA-4326, C. STATE 244403

JOINT STATE/AID MESSAGE

1. EMBASSY HAS REVIEWED SUMMARY LOAN REQUESTS PROVIDED WITH REFAIR AND DISCUSSED CERTAIN ASPECTS OF LOANS WITH OFFICIALS OF BANCO DE LA NACION ARGENTINA (BNA) AND OTHERS FAMILIAR WITH AGRICULTURAL SITUATION AND ADMINISTRATION OF PREVIOUS IDB LOANS IN SECTOR. FOLLOWING COMMENTS BASED ON THESE CONVERSATIONS MAY ASSIST IN EVALUATING SUBJECT REQUESTS.

2. AGRICULTURAL CREDIT - PRIVATE BANKS RARELY PROVIDE LOANS TO SMALL AND MEDIUM FARMERS, LEAVING THIS SECTOR ALMOST ENTIRELY TO BNA AND PROVINCIAL BANKS. BNA ALONE ACCOUNTS FOR OVER 50 PERCENT OF AGRICULTURAL CREDIT, WITH ABOUT 6 BILLION PESOS (USS 600 MILLION AT OFFICIAL EXCHANGE) IN CURRENT OUTSTANDING LOANS TO SECTOR.

INTEREST RATES OF BNA'S NORMAL LOANS TO SECTOR CURRENTLY

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21-23 PERCENT, WITH REPAYMENT PERIODS UP TO 14 YEARS DEPENDING ON

PURPOSE OF LOAN. LOANS UNDER IDB PROGRAM TO BE ON TERMS SIMILAR TO THOSE OF PREVIOUS IDB AGRICULTURAL CREDIT LOAN, I.E. 16 PERCENT INTEREST AND REPAYMENT PERIOD ALMOST DOUBLE THAT OF NORMAL LOANS. BNA STATES RECIPIENTS WILL BE CAREFULLY SELECTED USING SPECIALIZED CRITERIA DEVELOPED FOR PREVIOUS LOAN. ON SITE EVALUATION OF EACH APPLICANT'S NEEDS WILL BE CARRIED OUT BY BNA AGRONOMISTS AND ENGINEERS, WITH NATIONAL INSTITUTE OF AGRICULTURAL TECHNOLOGY (INTA) INPUT LIMITED TO TECHNICAL STUDIES, ETC. (INTA'S TECHNICAL SERVICES GENERALLY CONSIDERED TO BE GOOD BUT ITS ADMINISTRATION HAS BEEN HIGHLY POLITICIZED AND CONSEQUENTLY SUFFERED FROM HEAVY STAFF TURNOVER.) BNA PREPARING TO INCREASE TECHNICAL STAFF TO COVER ANTICIPATED ADDITIONAL WORKLOAD RESULTING FROM LOAN. LOANS WOULD BE LIMITED TO LEAST DEVELOPED AREAS OF PROVINCES OF CORDOBA (SOUTHWESTERN AND NORTHERN SECTIONS), SANTA FE (NORTHERN SECTION), BUENOS AIRES (EXTREME SOUTHERN SECTION) AND ALL OF OTHER PROVINCES NAMED IN APPLICATION.

3. MECHANIZATION - ARGENTINE MANUFACTURERS ABLE TO SUPPLY ALMOST ALL MACHINERY AND IMPLEMENTS USED IN NORMAL FARMING OPERATIONS, ALTHOUGH SOME SHORTAGES REPORTED IN LOCAL MARKET DUE TO LACK OF PARTS AND INCREASING FARM MACHINERY EXPORTS TO OTHER LATIN AMERICAN COUNTRIES. SUCH EXPORTS BENEFIT FROM SIGNIFICANT DIRECT EXPORT SUBSIDIES AS WELL AS SUPPLIER CREDIT ON FAVORABLE TERMS ISSUED BY GOA TO IMPORTING COUNTRIES. IMPORTS UNDER LOAN WOULD CONSIST PRIMARILY OF HEAVY EQUIPMENT FOR CLEARING TREES AND SCRUB FROM LAND FOR PLANTING OR GRAZING. ARGENTINA HAS LARGE AREAS OF AVAILABLE LAND STILL TO BE BROUGHT INTO PRODUCTION. BNA OFFICIALS EXPRESSED CONCERN ABOUT POSSIBLE DELAYS IN DELIVERY OF STEEL TRACKED HEAVY EQUIPMENT (CATERPILLAR MODELS D-5 TO D-8 OR SIMILAR EQUIPMENT) ONCE LOAN APPROVED. SINCE THIS TYPE OF EQUIPMENT NOT MANUFACTURED LOCALLY AND IS NEEDED FOR DEVELOPMENT IMPORT DUTY IS LOW AND IMPORTATION WOULD ENCOUNTER NO DIFFICULTIES. THEY CLAIM PREVIOUS PROBLEMS RE EXCHANGE RISK FOR IMPORTED EQUIPMENT (PARA. 16 D IV OF RESUME) WILL BE RESOLVED THROUGH ESTABLISHMENT OF SPECIAL FUND TO COVER SUCH RISKS. FUND WOULD BE FINANCED FROM BNA'S EARNINGS ON INTEREST PAID ON LOANS. INTEREST RATES WOULD BE SAME FOR BOTH LOCALLY PRODUCED AND IMPORTED EQUIPMENT, BUT BNA WOULD CONTRIBUTE LIMITED OFFICIAL USE

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LARGE SHARE OF ITS EARNINGS ON IMPORTED EQUIPMENT LOANS TO SPECIAL RISK FUND.

4. BNA OFFICIALS STATE BANK'S PRESENT LENDING ABILITY INSUFFICIENT TO MEET CURRENT DEMAND OF AGRICULTURAL SECTOR FOR CREDIT, AND APPLICANTS ALREADY ON HAND FOR FUNDS FROM BOTH ABOVE LOAN REQUESTS.

5. EMBASSY RECOMMENDS US SUPPORT: THESE LOAN APPLICATIONS WHICH WOULD HELP MEET WHAT WE BELIEVE IS VALID NEED FOR ADDITIONAL CREDIT IN THE AGRICULTURAL SECTOR. WHILE THIS NEED LARGELY RESULTS FROM GOA'S OWN CREDIT, PRICE AND EXPORT POLICIES WHICH TRADITIONALLY FAVOR INDUSTRIAL OVER AGRICULTURAL DEVELOPMENT, ARGENTINA CONTINUES TO OFFER RELATIVELY HIGH RETURN ON INVESTMENTS IN AGRICULTURE IN TERMS OF INCREASED FOOD PRODUCTION. WE CONTINUE TO QUESTION ARGENTINA'S NEED TO DRAW ON FSO, HOWEVER, AND SUGGEST THAT FUNDS FOR AGRICULTURAL CREDIT LOAN INSTEAD SHOULD BE PROVIDED FROM IDB ORDINARY CAPITAL.  
MONTLLOR

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## Message Attributes

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